

December 5, 2002

DFAS-FMP

MEMORANDUM FOR DISTRIBUTION LIST

SUBJECT: Civil Service Retirement System (CSRS) Withholdings for  
CSRS-Offset Employees Under Health Benefits-Premium  
Conversion (HB-PC)

On February 6, 2002, the Office of Personnel Management issued Benefits Administration Letter (BAL) 02-304, CSRS Withholdings for CSRS-Offset Employees Who Are HB-PC Participants. This BAL changes the way in which agency payroll offices calculate retirement deductions when employees covered under CSRS-Offset participate in the pretax benefit of Health Benefits - Premium Conversion (HB-PC). Based on these new requirements, the Defense Civilian Payroll System (DCPS) is being modified to calculate the deductions differently for CSRS-Offset employees participating in HB-PC, beginning with the first pay period of the new pay year, pay period ending December 28, 2002.

Prior to the implementation of this system change, participation in HB-PC had no effect on the way in which the retirement deductions were calculated. Beginning on December 15, 2002, health benefit premiums withheld for CSRS-Offset employees participating in HB-PC will be affected. Basic pay used for calculating retirement deductions will be divided into two segments. Until an employee's total basic pay reaches the maximum Social Security Wage Base (SSWB), basic pay will be divided into two parts: total basic pay less the pretax health benefit premium and basic pay equal to the pretax health benefit premium. The total amount of basic pay less the pretax health benefit premium will be calculated at the "reduced" CSRS withholding rate (.8, 1.3, 1.8 percent, depending on the category of coverage). The amount of basic pay equal to the pretax health benefit premium will be calculated at the "full" CSRS withholding rate (7.0, 7.5, or 8.0 percent, depending on the category of coverage). See the chart below.

APPLY:	TO:
"Reduced" CSRS withholding rate	Basic pay less HB-PC (pre-tax FEHB deductions)
"Full" CSRS withholding rate	Basic pay equal to HB-PC (pre-tax FEHB deductions)

When the total wages subject to Old Age, Survivors, Disability Insurance tax (OASDI) reach the SSWB, the CSRS withholding will revert to the full rate. Attachment 1 provides an example of the new calculations.

Additionally, OPM has issued BAL 02-311, CSRS Withholdings for Offset Employees who Participate in HB-PC (attached), to address situations in which HB-PC deductions exceed the employee's basic pay in a pay period. This may occur when an employee's pay is reduced due to an extensive period of leave without pay. In this type of situation, the "full" CSRS withholdings must be deducted for the entire amount of basic pay for the pay period.

We ask that you give this the widest dissemination possible. In addition, we have posted this memorandum to the DFAS web site at [www.dfas.mil](http://www.dfas.mil). If you have any questions regarding this new requirement, you may contact a member of my staff at (703) 607-5022 or DSN 327-5022.

/s/

Jerry S. Hinton  
Director of Finance

[Attachment 1:](#)

[Attachment 2:](#)

[Attachment 3:](#)

As stated

cc:

SMO-PE  
DFAS-PCP/DE  
DFAS-PCP/CH  
DFAS-PCP/PE

DISTRIBUTION: DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(FINANCIAL OPERATIONS)  
DIRECTOR, OFFICE OF FINANCIAL OPERATIONS,  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL OPERATIONS)  
COMPTROLLERS, DEFENSE AGENCIES  
DEPUTY ASSISTANT SECRETARY OF THE ARMY, MANPOWER  
AND RESERVE AFFAIRS (POLICY AND PROGRAM  
DEVELOPMENT DIVISION)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY (CIVILIAN  
PERSONNEL/EQUAL EMPLOYMENT OPPORTUNITY)  
DIRECTOR, AIR FORCE CIVILIAN PERSONNEL POLICY AND  
PERSONNEL PLANS (PLANS AND REQUIREMENTS  
DIVISION)  
COMPTROLLER, NATIONAL GUARD BUREAU  
DIRECTORS OF HUMAN RESOURCES, DEFENSE AGENCIES  
DIRECTOR, CIVILIAN PERSONNEL MANAGEMENT SERVICE  
PERSONNEL OFFICER, ARMED FORCES RETIREMENT HOME  
ASSOCIATE DIRECTOR, EXECUTIVE OFFICE OF THE  
PRESIDENT, HUMAN RESOURCES MANAGEMENT DIVISION